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PRODUCERS 88 (4-89) -- PAID UP  
WITH 640-ACRES POOLING PROVISION

FOUND PRINTING & STATIONERY COMPANY  
4703-C RICHMOND, HOUSTON, TEXAS 77027 (713) 552-9797

## PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 3rd day of June, 2009, between WASHINGTON FEDERAL SAVINGS, a Federally Chartered Savings and Loan Association, as Lessor (whether one or more), whose address is 425 Pike Street, Seattle, Washington 98101, and CIRCLE ENERGY, INC., a Texas Corporation, as Lessee, whose address is P.O. Box 1261, Mansfield, Texas 76063. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee ~~the following described land, hereinafter called leased premises: (use Exhibit "A" for long description):~~

for the purpose of drilling beneath (using directional or horizontal drilling methods only) and producing oil and/or gas from and/or attributable to (but expressly prohibiting the purpose of exploring, drilling or operating on the surface of) 16.302 acres of land, more or less, comprised of the following described lots out of Blocks 1, 2, 6 and 7 of the Holland Meadows Phase 3, an addition to the City of Mansfield, Tarrant County, Texas, according to the plat thereof, recorded in Cabinet D, Slide 10973, Plat Records, Tarrant County, Texas:

- a. Lots 21 through 23 and 25 through 34 of Block 1;
- b. Lots 1 through 6, 8 through 11 and 13 of Block 2;
- c. Lots 1 through 8, 12 through 16, 34 through 36 and 40 through 49 of Block 6; and
- d. Lots 2 through 5 of Block 7,

and being the same land described in that certain Substitute Trustee's Deed dated February 5, 2008, recorded as Instrument # D208042176 in the Records of Tarrant County, Texas, from Sharon C. Jett, Substitute Trustee to Lessor, which land is hereinafter sometimes referred to as the "leased premises",

in the county of Tarrant, State of Texas, containing 16.302 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of two (2) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be 24.0% of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be 24.0% of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of ~~one dollar~~

\$50.00 per acre then covered by this lease, such payment to be made to Lessor or to Lessors credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. All shut-in royalty payments under this lease shall be paid or tendered ~~directly~~ to Lessor ~~or to Lessor's credit in~~

~~at~~  
~~or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the U. S. Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.~~

5. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed ~~80~~ 40 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed ~~640~~ 320 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. ~~In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns.~~ If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

9. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

~~10. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased~~

premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

**14.10.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

**12.** In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

**13.** No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default, within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

**14.11.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

**12.** Notwithstanding anything contained in this lease to the contrary, Lessor and Lessee do hereby understand and agree as follows:

- (a) Lessee, its successors and assigns, for and during the term of this lease, are strictly prohibited from entering onto the surface of the leased premises for any purpose whatsoever, it being understood and agreed upon by and between the parties hereto that this lease is being executed only for subsurface operations described in Paragraph 1. hereof or for pooling purposes described in Paragraph 6. and Paragraph 12., Subparagraph (e) hereof. Lessee agrees that Lessee shall not enter upon or conduct operations of any kind on the surface of the leased premises at any time during the term hereof.
- (b) This lease shall not be maintained by the payment of shut-in gas well royalties under the provisions of Paragraph 3. above for more than a cumulative period of two (2) consecutive years beyond the expiration of the primary term hereof.
- (c) Notwithstanding anything stated in Paragraph 3. hereof to the contrary, the royalty on oil and gas (as defined hereinabove) shall be 24.0%. The royalty payable on gas shall include a royalty on all liquids or other constituent by-products stripped or processed from gas produced from the leased premises or land pooled therewith and any residue gas.
- (d) Notwithstanding anything stated in Paragraph 3. hereof to the contrary, the royalties on oil and gas produced hereunder, whether sold on or off the leased premises, shall be the amount realized by Lessee in a non-affiliated third party transaction. Provided, however, that notwithstanding the foregoing sentence, the royalties provided in Paragraph 3. hereof shall be determined and delivered to Lessor free of any development, production, separation, storage, dehydration at the well site, exploration, treatment, compression, gathering, operating, marketing, or other like costs incurred, whether direct or indirect, except, however, taxes and transportation charges, if any, applicable to Lessor's share of production which are actually paid by Lessee, or deducted by the purchaser of production, and are not reimbursed or refunded to Lessee; provided further, however, that any such costs which result in enhancing the value of the marketable oil, gas or other hydrocarbons to receive a better price may be deducted from Lessor's royalty share of such production so long as they are based on Lessee's actual costs of such

enhancements. Notwithstanding the foregoing, all royalties reserved hereunder shall never be based upon a price more or less than the actual price received by Lessee for oil, gas and/or other hydrocarbons produced and sold hereunder in a non-affiliated third party transaction.

- (e) Notwithstanding anything stated in Paragraph 6. hereof to the contrary, in the event a pooled unit is created under the terms and provisions of Paragraph 6. hereof, then all of the leased premises shall be included in such unit.
- (f) This lease covers only "oil and gas", which term, as used herein, means "only oil, gas and other hydrocarbons" and does not cover or include any other minerals (including, without limitation, sulphur, coal and lignite). All of said other minerals are excluded from this lease and are reserved to Lessor. All references in this lease to "oil, gas and all other minerals", if any, or "oil, gas or other mineral", if any, shall mean oil and gas only.
- (g) It is agreed that neither this lease nor any terms or provisions hereof shall be altered, amended, extended or ratified by any division order or transfer order executed by Lessor, its successors, agents or assigns, but that any division orders or transfer orders shall be solely for the purpose of confirming the extent of Lessor's interest in production of oil and gas from the leased premises, or from land properly pooled therewith. Any amendment, alteration, or ratification of this lease or of any term or provision of this lease shall be made by an instrument in writing clearly denominated as to its purpose and effect, describing the specific terms or provisions of the lease affected and the proposed change or modification thereof, and must be executed by the party against whom any such amendment, alteration, extension or ratification is sought to be enforced, and any purported amendment, alteration, extension or ratification not so denominated and executed shall be of no force and effect.
- (h) It is understood and agreed that one (1) year following the expiration of the primary term of this lease (or upon the expiration of any extension or renewal of the primary term), whichever occurs last, Lessee shall release the leased premises as to all rights lying below 100 feet below either (1) the deepest depth drilled in any well drilled on land properly pooled with the leased premises, or (2) the stratigraphic equivalent of the base of the deepest formation producing or capable of producing in any well drilled on land properly pooled with the leased premises, whichever is deepest.
- (i) Upon expiration or termination of this lease for any reason, Lessee shall be obligated at its expense promptly to prepare, execute and file in the Records of Tarrant County, Texas, an appropriate release instrument covering all of the leased premises, and to forward a copy of same as so recorded to Lessor within 60 days after such expiration or termination date.
- (j) The terms, provisions and conditions of this lease shall be governed by the laws of the State of Texas.
- (k) Time is of the essence with respect to this lease.
- (l) The provisions hereof constitute the complete agreement of the parties hereto with respect to the subject matter hereof and this lease supersedes all previous leases and/or agreements, whether written or oral, with respect thereto.

13. Notwithstanding anything contained herein to the contrary, this lease is executed by Lessor without any representations or warranties (of title, or otherwise), either statutory, express or implied. Notwithstanding anything contained in this lease to the contrary, in the event of failure of title to all or any portion of the leased premises, it is agreed that no portion of any bonus consideration paid by Lessee to Lessor for Lessor's execution of this lease shall be re-paid or refunded by Lessor to Lessee.

14. The terms and provisions of this lease shall be binding upon and shall inure to the benefit of Lessor and Lessee, their respective heirs or successors and assigns.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first above written.

WASHINGTON FEDERAL SAVINGS

By Paul Tyler  
Paul Tyler, SUP and General Counsel  
[Print/Type Name, Title]

STATE OF WASHINGTON

COUNTY OF King

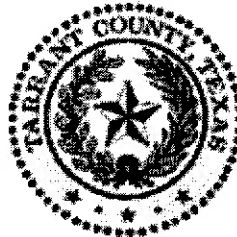
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This instrument was acknowledged before me on this the 3rd day of June, 2009, by Paul Tyler, as SVP + Counsel of WASHINGTON FEDERAL SAVINGS, a Federally Chartered Savings and Loan Association, on behalf of said association.



Deborah M. Anderson  
Notary Public in and for the State of Washington

P.O. Box 1261  
MANSFIELD TX 76063



HUNT  
PO BOX 1261

MANSFIELD TX 76063

Submitter: CKL LLC

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SUZANNE HENDERSON  
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TARRANT COUNTY COURTHOUSE  
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LSE 6 PGS \$32.00

By: \_\_\_\_\_



**D209166890**

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OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
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